No. 330

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1941

HYDROLOID, INCORPORATED, VERWALTUNGS UND REORGANIZATIONS A. G. SCHWYZ and HERMANN SCHERBAK,

Petitioners,

against

L. L. BROWN PAPER COMPANY,

Respondent,

and

RONALD C. LEE and JOSEPH D. LEE,

Respondents.

PETITION

HYDROLOID, INCORPORATED

VERWALTUNGS-UND REORGANIZATIONS
A. G. SCHWYZ

HERMANN SCHERBAK

By their attorney

WILLIAM MORTON CARDEN

Date: July 30, 1941.

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PETITION

TO THE HONORABLE, THE CHIEF JUSTICE AND THE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES.

Your petitioners, Hydroloid, Incorporated, a New York corporation having its principal place of business in the Borough of Manhattan of the City of New York; Verwaltungs-und Reorganizations A. G. Schwyz, a Swiss corporation; and Hermann Scherbak, a resident of the State of New York and a citizen of Czecho Slovakia; pray this Court for a Writ of Certiorari to the United States Circuit Court of Appeals of the Second Circuit, to review a final decision of the said court, affirming a decree of the United States District Court of the Southern District of New York, entered on the 2nd day of May, 1941.

I

Statement of the Matter Involved.

Questions Raised.

Whether or not enforceable property rights, as established by local property and contract law between the owner of a secret process and his licensee, may be ignored and violated by a federal court merely because letters patent have meanwhile been issued.

Whether or not the decision of this Court in *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502, where this Court denied a plaintiff the right to sue on an infringement because the breach of license complained of was intended to effect a monopoly of an unpatented product, may by construction be applied in like manner to defeat a cause of action devoid of any attempt to effect monopoly or otherwise violate the law or public policy.

Parties and Subject Matter

1. For the sake of brevity the petitioners will be referred to as "Scherbak", and other parties by the names included in quotation marks, as used below. The tangle of property rights involved here had their beginning in 1921, when a foreign corporation, "Scherbak", joined with certain New York citizens, "Lee", in forming a New York Corporation, "Hydroloid", to which Scherbak transferred ownership of a highly valuable secret process for treating paper, together with patent applications therefor (Ex. 1, R. 303). Use of this process imparts to paper new and unique qualities of water resistance, grease resistance and age resistance.

2. Hydroloid, in 1925, issued to a Massachusetts corporation, "Brown", a limited royalty-basis license to use the process, imposing certain conditions, as to improvements in the process, manufacture, sale, and other matters (Ex. 5, R. 18, 19, 20) intended to benefit the ungranted interest

retained by Hydroloid (Ex. 5, R. 16). In 1928 the ownership of secret process and license contract was transferred to Lee by virtue of a colorable assignment and sale "for the benefit of creditors", duly confirmed by a New York Court (Exs. 16, 17, 18, 19, 21, 22, 23; R. 329, 331, 335, 336, 339, 363, 365, 109). Later that year a patent on the process was issued in Lee's name (Ex. 50, R. 422).

3. In 1930 Lee made partial restitution to Scherbak, under agreements made through Scherbak's lawyer, Loeb. To Scherbak was transferred the patent and all appurtenants thereto; while Scherbak signed an "assignment" of one undivided half of "all accruing rights" in the Brown license to Lee and the remaining one half to Loeb; reserving, however, a right to require an accounting from Brown as to possible undisclosed, unaccounted for or withheld liabilities then accrued (Lee's Ex. 1, R. 42; Ex. 2, R. 44, R. 167).

4. Prior to 1930, and also subsequent thereto, Brown had violated, and did violate, one or more of the conditions imposed by its license (R. 220, 211, 212, 213; Opinion, R. 504); but there was no disclosure thereof to Scherbak, who controlled the foreign corporation, and was then residing in Europe. Coming to this country about January 1st, 1935, he complained of one apparent breach, and Brown told him that, in their opinion, he had no right to question their performance (Ex. 44, R. 415; Ex. 46, R. 417).

5. Learning, late in 1937 or early in 1938, of a more serious breach of condition (R. 248, 249), he attempted to cancel the license (Exs. 48, 49; R. 419, 420); and Brown thereupon brought action under the Declaratory Judgment Act to confirm his rights and enjoin Scherbak from interference (Pet., R. 14, 15). This he achieved, so far as the lower court decree was concerned; and on appeal that decree was affirmed by the Circuit Court of Appeals of the Second Circuit.

II

Reasons for Granting the Writ.

1. In ignoring the local law and the property rights created thereunder, while relying exclusively on a dubious application of patent law, and of contract law, the Circuit Court of Appeals of the Second Circuit has decided an important question of local law in a way in conflict with applicable local decisions.

2. In applying its concept of patent law to a property right that began in connection with a mere secret process years prior to the issuance of letters patent thereon, the Circuit Court of Appeals has determined an important question of federal law which has not been, but should be, settled by the United States Supreme Court.

3. In deciding that breach of lawful conditions in a limited license contract is not an infringement, the Circuit Court of Appeals has decided a federal question in a way probably in conflict with the United States Supreme Court. *Motion Picture Patents Co.* v. *Universal Film Co.,* 243 U. S. 502.

4. The decision about infringements is in conflict with the interpretation which the Circuit Court of Appeals of the Seventh Circuit has given to applicable decisions of the Supreme Court. *American Lecithin Co.* v. *Warfield Co.,* 105 Fed. 2d. 207, 211. The rejection of local property law is in conflict with *Hartell* v. *Tilghman,* 99 U. S. 547, and numerous other cases; also, with *Mayer* v. *Hardy,* 127 N. Y. 125.

WHEREFORE your petitioner prays that a writ of certiorari issue under the seal of this Court directed to the Circuit Court of Appeals for the Second Circuit commanding said Court to certify and to send to this Court a full and complete transcript of the record and all proceedings herein,

to the end that this case may be reviewed and determined by this Court, as provided by law, and that the order of the said Circuit Court of Appeals for the Second Circuit may be reversed and that your petitioner may have such other and further relief in the premises as to that Court may seem meet and just.

And your petitioners will ever pray.

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